FACT SHEET

CBO BASELINE: FY 2004-13

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On January 29, the Congressional Budget Office (CBO) released the *Budget and Economic Outlook: An Update* for Fiscal Years 2004-2013. This fact sheet presents some of the key budget data contained in the CBO report. (The complete document can be found on CBO's web site at www.cbo.gov.)

THE CBO BASELINE CONCEPT

CBO's baseline is a projection of future spending and revenues assuming that current laws and policies remain unchanged. It is not a forecast of future budgetary outcomes and does not include policies that have not been enacted into law. For revenues and mandatory spending, the projections are revised only to incorporate potential changes in the economy, demographics, and other factors that affect how laws governing these programs are carried out. These estimates do not assume that expiring tax cuts are extended nor do they include the costs associated with the President's economic growth or Medicare reform proposals.

For discretionary spending, CBO normally assumes that over the 10-year budget horizon, discretionary appropriations grow with inflation from the current year's enacted level. However, this year, Congress is operating under a temporary continuing resolution (CR) for all but two appropriations bills. The $738 billion level assumed in the CR is likely to be revised upward to at least $751 billion based on an informal agreement reached between the President and the Republican leadership. To provide the most realistic set of budget projections, most of the figures in CBO's report and in this fact sheet reflect an "adjusted" baseline, that projects discretionary spending from a 2003 level of $751 billion.

BASELINE ESTIMATES

Deficit in 2003. CBO's estimate of the unified deficit for 2003 is $199 billion – the largest deficit since 1994. The on-budget deficit – excluding Social Security and the Postal Service - is $361 billion. These projections have worsened by $54 billion since CBO's last update in August 2002, due mainly to lower tax receipts. Between now and the end of this fiscal year, current year deficits could decline even further if the economy does not improve or if the Congress enacts an economic growth package or supplemental appropriations to fund a war with Iraq.

Deficits in 2004-2013. CBO estimates that the unified deficit declines to $145 billion in 2004, but unified deficits persist until 2007. When CBO excludes the surpluses generated by the Social Security trust funds, the budget remains in deficit through 2011. However, surpluses in 2012 and 2013 presume that the tax cuts enacted in the 2001 tax bill sunset in 2010. If these tax cuts were extended, deficits would continue for the foreseeable future.

Cumulative totals. In January 2001, CBO projected that unified surpluses would top $5.6

trillion over the period 2002-11. In January 2002, the forecast for the 2003-12 period was $2.3 trillion. The current 10-year estimate for 2004-13 is $1.3 trillion.

The table below shows CBO's current projections of the surplus in 2003, 2004, and over three ten-year periods described above, both with and without the tax sunsets in the 2001 tax bill. The projected $1.3 trillion surplus for the current 10-year budget window declines precipitously from $1.3 trillion to $463 billion if the provisions in the 2001 tax bill are extended.

The projected $1.3 trillion surplus (2004-13) declines to $463 billion if provisions in the 2001 tax bill are extended.

Table 1 – CBO January 2003 Baseline Projections With and Without Tax Sunsets

($ billions)	2003	2004	2002-11	2003-12	2004-13
CBO baseline including sunsets:					
Unified surplus/deficit	-199	-145	+20	+629	+1,336
On-budget surplus/deficit	-361	-319	-2,221	-1,769	-1,231
CBO baseline excluding sunsets					
Unified surplus/deficit	-199	-146	-283	+55	+463
On-budget surplus/deficit	-361	-320	-2,524	-2,344	-2,105

In January 2001, CBO projected that the debt held by the public would be eliminated by 2008. CBO's current debt projection for 2008 approaches $4 trillion and shows no significant decline unless the tax cut sunsets are preserved. Federal spending on interest to service this large and growing debt will be $1.3 trillion higher for the period 2002-11 than projected just two years ago.

CBO BASELINE WITH BUSH BUDGET POLICIES

The President's Budget Policies. On February 3, the President will release his budget for fiscal year 2004. Based on information and statements from the Bush administration, the President is expected to propose or endorse:

- a $674 billion economic stimulus, or "growth" package;
- a proposal to make the 2001 tax cuts permanent;
- an aggregate 4 percent increase in defense and domestic discretionary spending;
- an FY 2003 defense supplemental;
- a $400 billion Medicare reform and prescription drug plan for seniors.

The table below shows the impact of these proposals on CBO's current baseline projections.

Table 2 – CBO January Baseline Projections with Bush Policies

The President's budget policies exhaust the entire Social Security trust fund surplus

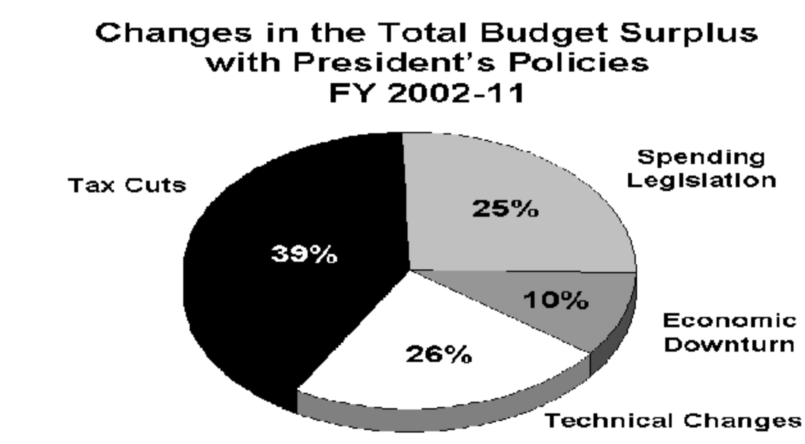
($ billions)	2003	2004	2004-08	2004-13	2003-13
CBO baseline surplus/deficits	**-199**	**-145**	**-143**	**+1,336**	**+1,137**
Economic stimulus package	35	122	385	639	674
Extend tax cuts in 2001 tax bill	0	1	60	785	785
4% growth in discretionary spending . . .	7	15	92	204	211
Anticipated 2003 supplemental	8	20	31	31	39
Medicare reform and prescription drugs	0	0	100	400	400
Interest costs	0	4	104	506	506
Total changes	51	161	774	2,565	2,616
Bush policy deficits/surpluses	**-250**	**-306**	**-917**	**-1,229**	**-1,479**
Deficits without Social Security	***-412***	***-480***	***-1,980***	***-3,797***	***-4,208***

The Bush policies, articulated to date, are likely to increase both short- and long-term deficits by at least $2.6 trillion over the next decade. Deficits in 2003 could rise from $199 billion to $250 billion. The 2004 deficit could reach a record high of $306 billion. Over ten years, the Bush proposals consume the entire $2.7 trillion Social Security surplus. And, these projections are probably conservative, since they do not include the costs of a potential war with Iraq, modifications to the alternative minimum tax, or further declines in tax receipts. Either of these developments could worsen deficits by hundreds of billions of dollars over the next decade.

THE DEMISE OF THE $5.6 TRILLION SURPLUS

The $5.6 trillion surplus. In January 2001, CBO projected a ten-year budget surplus of $5.6 trillion. The comparable CBO baseline estimate in the January 2003 baseline is a mere $20 billion. If the policies proposed by the President were enacted, the $20 billion surplus becomes a $1.6 trillion deficit.

Tax cuts account for 39% of the decline in the $5.6 trillion surplus



Tax cuts proposed by the President

explain 39 percent of the decline in the surplus. These include, the $1.7 trillion tax bill enacted in 2001, making those tax cuts permanent, and the recently proposed economic growth package. Defense, homeland security, and other spending legislation accounts for one quarter of the decline. Revisions due to technical factors and the economy caused the surplus to decrease by 26 percent and 10 percent respectively.

ECONOMIC FORECAST

Economic overview. In its short term forecast of the economy, the CBO expects a sluggish recovery, with GDP growth of 2.5 percent in 2003 and 3.6 percent in 2004. The unemployment rate would remain at an average 5.7 percent in 2004. Inflation is expected to remain near 2 percent throughout the ten year forecast period.

CBO's longer term forecast calls for a roughly 0.1 percent per year deceleration of GDP growth from 3.4 percent in 2005 down to 2.6 percent in 2011. This reflects two factors: (1) the end of the recovery stage when growth temporarily exceeds the long-term sustainable growth rate; and (2) a slowing of growth in the labor force as the baby boom generation retires.

CBO's forecast also includes a version of "dynamic scoring." It takes the baseline assumption that taxes will revert to their 2000 levels after 2010, and concludes that such a "tax increase" would cause some people to withdraw from the labor force. That, in turn, would reduce GDP growth for the three years after 2010 and reduce federal revenues by $18 billion in 2013 (about 7.5 percent of the $240 billion revenue gain from letting the tax provisions expire). Although that dynamic effect is lower than supply siders often predict, it is much higher than many labor economists would accept. They believe that there would be little net change in the amount of work done with a "tax increase". While some people would work less, many other people would want to maintain their after tax income and thus would work more, not less, if tax levels changed. Indeed, the tax increase of 1990 and 1993 had no discernable effect on labor supply.